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## Guatemala

### Retail Food Sector

### Annual

### 2004

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**Report Highlights:**

The Free Trade Agreement between the United States and the Central American countries (CAFTA) will offer U.S. companies tremendous opportunities to export products to Guatemala. In addition, changes in Guatemalans' purchasing habits have increased the demand for high-quality products in supermarkets.

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Includes PSD Changes: No  
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Guatemala [GT1]  
[GT]

**Table of Contents**

<b>I</b>	<b>ECONOMIC SITUATION .....</b>	<b>3</b>
<b>A</b>	<b>Market Overview.....</b>	<b>3</b>
<b>B</b>	<b>INCOME DISTRIBUTION.....</b>	<b>4</b>
<b>C</b>	<b>MARKET SIZE.....</b>	<b>5</b>
<b>D</b>	<b>ADVANTAGES &amp; CHALLENGES .....</b>	<b>6</b>
	<b>Advantages.....</b>	<b>6</b>
	<b>Challenges .....</b>	<b>6</b>
<b>E</b>	<b>RETAIL MARKET.....</b>	<b>6</b>
<b>II</b>	<b>ROAD MAP TO ENTRY .....</b>	<b>7</b>
	<i>Entry strategy.....</i>	<i>7</i>
	<i>Trends &amp; Highlights.....</i>	<i>8</i>
<b>B.</b>	<b>CONVENIENCE STORES.....</b>	<b>9</b>
	<i>Entry Strategy.....</i>	<i>9</i>
	<i>Distribution Channels .....</i>	<i>11</i>
<b>III</b>	<b>COMPETITION.....</b>	<b>12</b>
<b>IV</b>	<b>BEST PROSPECTS .....</b>	<b>12</b>
<b>B</b>	<b>PRODUCTS NOT PRESENT DUE TO TRADE BARRIERS .....</b>	<b>13</b>
<b>V</b>	<b>POST INFORMATION .....</b>	<b>13</b>

## I ECONOMIC SITUATION

### A Market Overview

Guatemala's GDP for 2003 was \$24.9 billion and is expected to grow by 2.6 percent in 2004. It is the largest economy in Central America. Next closest is Costa Rica with a GDP of \$17 billion. Thanks to the new Government's pro-business attitude, there is a desire by the private sector to invest in the country. Unlike the situation with the previous government in which the private sector and the government were against each other, this government is very pro-business. In fact, it has filled most of the cabinet positions with prominent businessmen. The Bank of Guatemala estimates that Guatemalan exports could increase by 10% annually if the U.S.-Central America Free Trade Agreement (CAFTA) is ratified.

One of the major accomplishments of the new GOG was to eliminate the trade barriers between Guatemala and the rest of the Central American countries. From a total of 60 trade barriers, now only one remains to be eliminated. However, negotiations have started and according to the Vice Minister of Foreign Relations, the end of 2004 must eliminate this last barrier. All food products can now be transported freely throughout the Central American region.

The Guatemalan government is attempting to attract tourism as well as foreign investment to develop the tourism sector.

Macro economy:

- ❑ Interest rates are at their lowest levels in decades. Loans in local currency are at 12% annual interest and in US dollars at 7.5% annual interest.
- ❑ Banks have high liquidity. In fact, the Central Bank has had to pick up some of the excess liquidity.
- ❑ In 2003 banks had record profits.
- ❑ The local currency has stayed fairly stable in the last four years, averaging Q7.9 per \$US 1.00

U.S. agricultural exports to Guatemala have continued to grow during the last few years.

- Total U.S. agricultural exports grew from \$289 million in 1998 to \$357 million in 2003.
- Bulk commodities exports varied very little during 1999-2001, but in 2002 had an increase of 45% over the previous year. In 2003 U.S. bulk commodity exports were \$132 million.
- Intermediate agricultural products grew from \$99.3 million in 1998 to \$106 million in 2003.
- Consumer oriented products exports increased from \$67.6 in 1998 to \$111 million in 2003. This sector has shown the most promise.

Guatemala's economy is still very dependent on coffee and sugar and their low international prices have had some negative affect on the economy. The recovery has begun, but the last three years have been very difficult.

It is also important for U.S. firms considering exporting to Guatemala to understand that the market conditions are strongly affected by income distribution and that there is a major difference in incomes between the interior of the country and Guatemala City.

## B INCOME DISTRIBUTION

Despite the slower economy, demand for U.S. products continues to grow, and opportunities exist in many sectors. However, it is important to understand the income distribution of the country, in order to properly target markets. Guatemala's income distribution is very unequal. Of a population of 12 million, income is concentrated in the upper class, with 63% of income in the hands of the top 20% of the population. The polarity in income distribution determines a particular pattern of consumption, where the majority of the population consumes merely for subsistence. Therefore, luxury goods can only be targeted to a significantly small portion of society. However, U.S. food products are very competitively priced and are sought out by both high-income and middle-income consumers. Many U.S. food products, such as grains, poultry, dairy and pork are cheaper than domestically produced products.

Guatemalan Household Expenditures

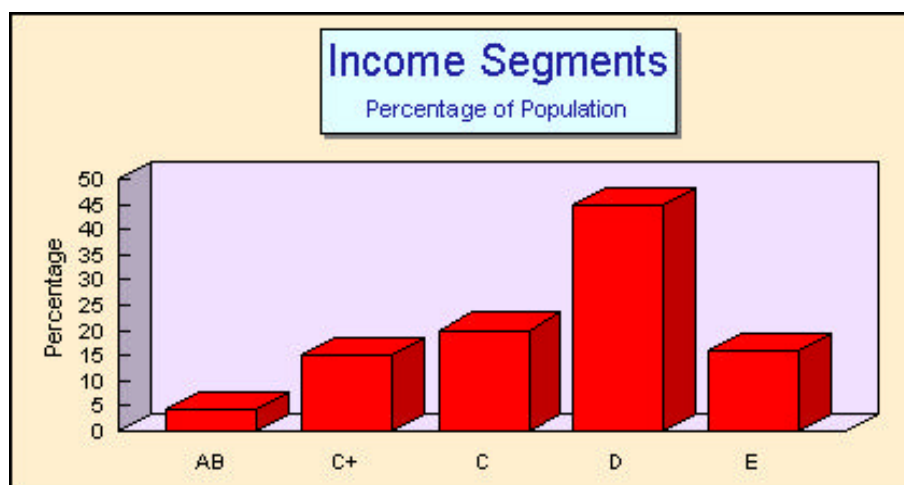
ITEM	%
Food & Non-Alcoholic Beverage	37.1
Shoes & Clothing	7.0
Rent, Electricity and Water	21.6
Furniture & Household Goods	6.7
Health	7.3
Transportation & Communication	7.7
Recreation	4.8
Education	3.3
Other	4.6

Source: Ministrv of Economy

Guatemalan households spend relatively more money on food than education and health. Food and non-alcoholic beverages account for 37.1% of the basic basket. Consequently, Guatemalan consumers are extremely sensitive to price changes in food items.

There is also a big difference between rural and urban populations. The urban population spends 31.6% of its income on food purchases, while the poorer rural population spends 46.9%. Furthermore, looking at Guatemala City, the picture changes even more. Only 28.8% of expenditures in the metropolitan area are for food purchases. Realizing where the wealth is, the supermarkets have expanded first in the metropolitan area, and then in larger cities. In the past, smaller towns had no supermarket presence. However, La Fragua, the largest supermarket chain in Guatemala, plans to open three new units in the interior in towns with a population as low as 40,000 people. There are ample opportunities in the interior for U.S. products, especially those products that are priced for low-income and middle-income markets. Furthermore, the concentration of urban populations and the increasing middle class offer relative potential in the interior of the country for U.S. firms interested in forming alliances with smaller distribution companies that cater to the markets in the interior of the country, and use route systems to get products to the "mom & pop" stores in the smaller cities and towns.

- The urban population is estimated at 4.7 million, with an annual growth rate of 3.2%.
- The middle class is estimated at 5.8 million with an annual growth rate of 1.7%.
- Population growing at a rate of 2.7% annually.



- AB – is the top 4% of the population that can afford anything. The main difference between A and B is the A's own their own planes. They are the jet setters.
- C+ - is the upscale middle class that can afford most food products. They tend to be professionals with family incomes over \$3500 a month.
- C- this is the general middle class that must watch how they spend their income. They have some savings ability but very little.
- D – this is the lower class that is just surviving. They are subsistence buyers, and can only afford the basics.
- E – this group eats when it can. it has no purchasing power and is below poverty.

## C MARKET SIZE

Guatemala in 2003:

- ❖ Total food expenditures of more than \$3 billion.
- ❖ Total consumer-oriented and edible fisheries' market estimated at \$1.3 billion.
- ❖ Total agricultural imports were \$886 million.
- ❖ U.S. share of total agricultural imports was 42%.
- ❖ Total consumer-ready imports were \$443 million
- ❖ U.S. share of consumer-ready imports was 23%

**D ADVANTAGES & CHALLENGES**

<b>Advantages</b>	<b>Challenges</b>
Of the 12 million Guatemalans, 480,000 are in a position to afford any imported good, and an additional 4 million can afford competitive U.S. food products.	The economic condition of the country limits imports.
Guatemalans view U.S. products as of higher quality and safer than national products.	There is a lack of brand awareness among importers, retailers and especially consumers.
The expanding retail industry, and the growing demand for new and better products by consumers, create an exceptional opportunity for new imported goods.	Some imports cost much more than nationally produced products, and purchasing power for many consumers is lacking.
Importers generally favor trading with U.S. exporters because of reliability.	Imports must go through a complicated bureaucratic approval process and there are quotas on various items.
The growing food processing industry is looking for new and better food ingredients.	There is limited infrastructure and distribution, especially on perishable products.
Effective market promotion can overcome price sensitivity, and retailers are open to this and will readily participate.	Regional competition is strong, especially from Mexico, El Salvador and Chile.
CAFTA should be ratified in 2005 and U.S. companies will have a comparative advantage over other countries.	Mexico is a strong competitor as it continues reinforcing the Free Trade Agreement it signed a few years ago.
The tourism sector is growing and U.S. raw materials are preferred among visitors because of quality and food safety.	Distribution of food products in the interior of Guatemala represents a challenge to importers of U.S. products.

**E RETAIL MARKET**

Over the last years the supermarket sector has been growing rapidly, more than quadrupling in sales from \$128 million in 1995 to \$650 in 2003. This increase is due to the higher number of outlets and the changing purchasing habits among consumers, who now are going to a supermarket more than before. Retail outlet sales have grown tremendously in the last few years. In 1994, under 15% of food sales were at supermarket-type retail outlets; the rest was at traditional wet markets and corner stores. However, by 2002 this percentage had increased to 36%.

The number of supermarkets has grown in the last five years as well. In 1994, there were only 66 units, by 1998 there were 116, and this year there are 150.

La Fragua has dominated the market in Guatemala for many years. It consists of 108 units and has four formats:

Supermarket  
Hypermarket

Club  
Discount market

In 2000, Royal Ahold bought a 50% stake in this firm. In September 2001, the second and third largest supermarket chains in Guatemala merged, forming one company with 22 units under the names of La Torre and Econosuper. The reason for their joining forces was to compete better against the La Fragua group, which dominates the market with their concepts of Hiperpaiz, Tiendas Paiz, La Despensa Familiar, Maxi Bodegas and Club Co. Because of the stores' locations, La Torre will cater to the more affluent consumer, while Econosuper will service the lower income consumer. A review of the stores showed that imported products represent no more than 20% of La Torre's product mix, while Econosuper will have less than 5%.

## II ROAD MAP TO ENTRY

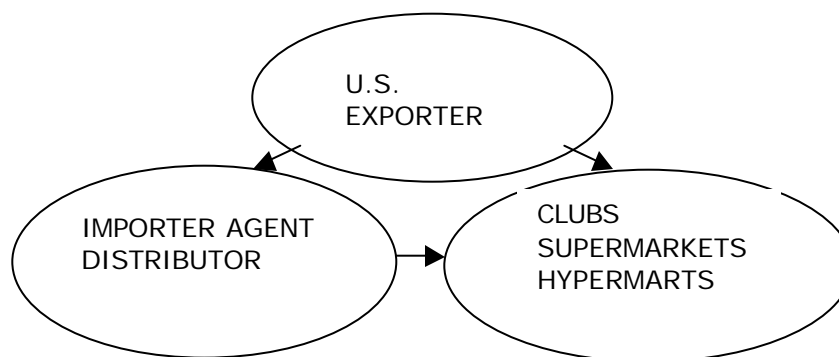
### A. SUPERMARKETS, HYPER MARTS & WAREHOUSE CLUB OUTLETS

#### Entry strategy

Success in introducing your product in the market depends on local representation and personal contact. Selecting a distributor is the easiest and fastest way to enter the market. In particular, it is best if this distributor is already supplying the supermarkets, in order to benefit from their existing customer base. The local representative or distributor should be able to provide market knowledge and guidance on business practices and trade related laws, as well as sales contacts. In many cases the local representative or distributor is also the importer. The FAS office in Guatemala maintains listings of companies that represent or distribute U.S. products in Guatemala. The office also has ongoing activities that provide opportunities to meet the Guatemalan trade.

In order to improve the odds of success in entering the market, U.S. suppliers should provide labeling or re-labeling services, competitive pricing, credit, catalogs, printed material and samples to importers/distributors. Firms should also consider providing support to importers in order to develop sales, by way of shared advertising costs of new brands, as well as training programs for sales personnel.

#### Distribution Channels



- Normally, an importer or agent, who may also be the wholesaler and/or the distributor, imports products.

- Products represented by agents tend to be better promoted.
- Most major supermarkets directly import some of their products.
- Most importers work directly with brokers out of Miami.

### Company Profiles

#### **Yearly Food Sales in U.S. Dollars**

**A** = Under 5 million

**B** = 5- 20 million

**C** = 21- 50 million

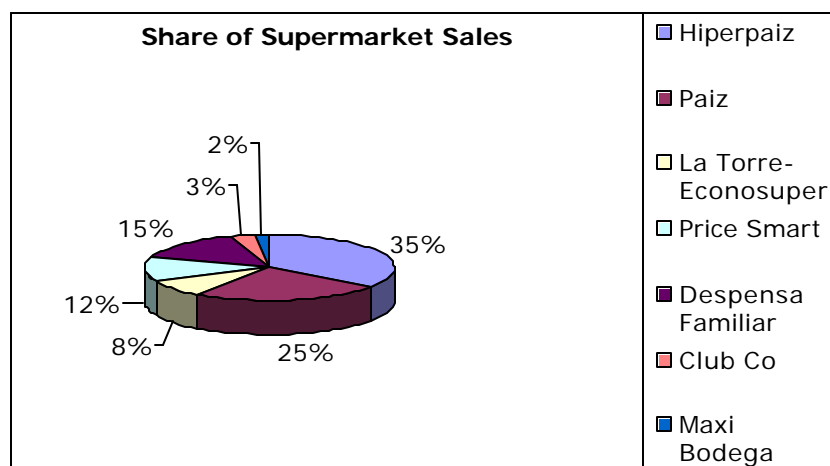
**D** = Over 50 million

<b>Retailer</b>	<b>Ownership</b>	<b>Sales</b>	<b>Outlets</b>	<b>Location</b>	<b>Purchase Type</b>
Hiperpaiz * Hypermart	Local Ahold	D	6	Guatemala City	Direct Distributor
Paiz * Supermarket	Local Ahold	D	27	Nationwide	Direct Distributor
Despensa Familiar* Supermarket	Local Ahold	C	72	Nationwide	Distributor
La Torre Supermarket	Local	B	12	Guatemala Escuintla	Direct Distributor
Econosuper Supermarket	Local	A	10	Guatemala City	Direct Distributor
Price Smart Warehouse	Local U.S.	D	2	Guatemala City	Direct Distributor
Maxi Bodega	Local Ahold	B	2	Guatemala City	Direct Distributor
Club Co	Local Ahold	D	1	Guatemala City	Direct Distributor

\* These stores are all part of the La Fragua Group, and the Dutch firm Royal Ahold owns 50% of the stock.

La Fragua, which had 90% of the market during the 1990's, now only represents 67% of the market. Price Smart has been able to capture 12% of the market in four years.





### Trends & Highlights

- There has been a consolidation process among supermarket chains, not just in Guatemala, but also in El Salvador and Honduras. La Fragua has added 26 units in El Salvador in the last three years and opened the first HiperPaiz in 2002 in El Salvador and one in Honduras in 2004.
- Supermarkets are starting to look at markets in the interior of the country and expanding in that direction. Most of the units added in the last three years have been in the interior.
- Supermarket sales continue to grow and take sales away from wet markets.
- Imported products are capturing a larger share of the shelf space, going from 38% in 1999, to 45% in 2003.
- Convenience and partially prepared foods are gaining ground as consumers try to lower time spent preparing foods at home.
- Overall, frozen prepared foods now account for 6% of imported food sales, up from 2% in 1999.
- The membership discount club and bulk purchase concept has gained acceptance among consumers, as many find wholesale clubs much more suited for one-stop shopping.
- Food sales account for 20-25% of gross sales at wholesale clubs.
- There is a new trend to eat healthy food low in calories and cholesterol. Most supermarkets have a diversity of dry, frozen and ready-to-eat products. Also, sugar-free products are expanding their shelf share and grow every year. These products include candy, jams, cookies, crackers, etc.
- Supermarkets now offer the "food solution" concept. This is where the supermarket sells already prepared foods, from typical food to a roasted turkey. Most products are already cooked and served inside the supermarket.

## B. CONVENIENCE STORES

Since their purchasing power is smaller, most convenience stores rely on agents, importers and/or distributors for their product. The same companies that supply the supermarkets also supply the convenience stores, with few exceptions.

### Entry Strategy

Entry is very similar to the supermarkets, hypermarkets and clubs. Please refer to page five of this report. However, there is one important difference that must be considered. The selected partner must have national distribution, or he won't be able to service all the convenience stores spread out all over the country.

### Distribution Channels

- Normally, an importer or agent, who may also be the wholesaler and/or the distributor, imports products.
- Importers can sell to convenience stores through their central distribution centers; however, this is not preferred by the chains and may limit sales.

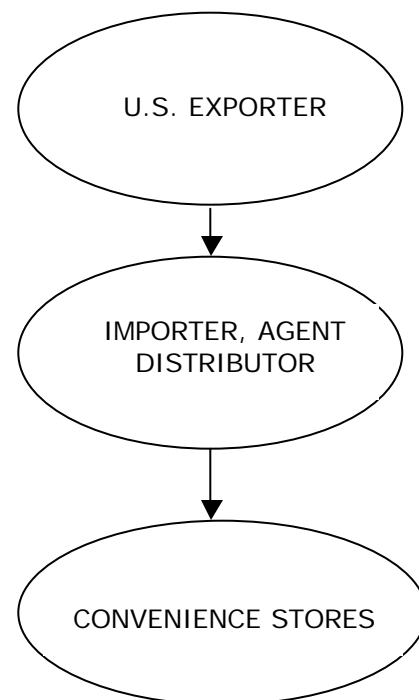
Direct distribution to the units is the preferred method of distribution and the best way to maximize sales. This allows the distributor/agent to monitor store inventories more closely, and make sure units are never out of product.

### Company Profiles

#### ***Annual Food Sales in Millions of U.S. Dollars***

A = 5-10 million  
B = 10 - 20 million  
C = Over 20 million

RETAILER	OWNERSHIP	SALES	OUTLETS	LOCATION	PURCHASE TYPE
Essomart	Local & US	C	34	National	Distributors
Star Mart	Local & US	C	13	National	Distributors
Super 24	Local	C	19	National	Distributors
Select	Local & US	B	13	National	Distributors
Express	Local	A	12	National	Distributors



### Trends & Highlights

- ✓ The convenience stores are the only business that offers 24-hour service, besides pharmacies.
- ✓ Most convenience stores are found along main boulevards and busy avenues, as well as on the three national roads.

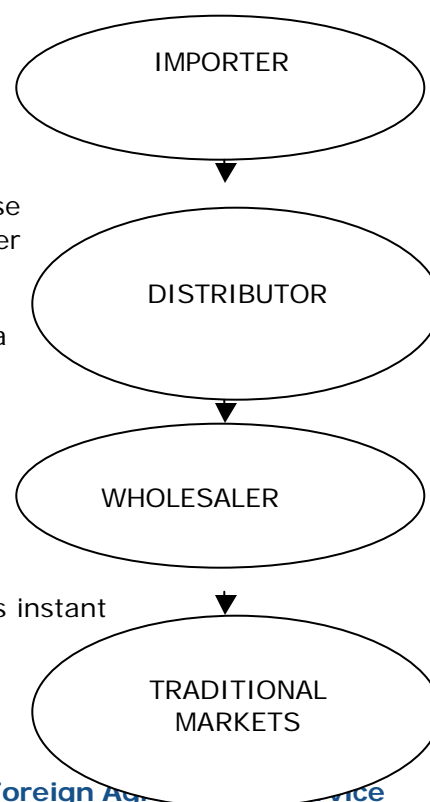
- ✓ They are also found in some of the major cities; however, the majority of the stores are located within the Guatemala City metropolitan area.
- ✓ More than 70% of the products in the convenience stores are imported, with most from the U.S. In fact, many of the POS materials are written in English.
- ✓ 30% of their sales are prepared foods, which include hot dogs, sandwiches, soups, fried chicken and pizza.
- ✓ Over 90% of their non-gasoline sales are food items, including beer and liquor.
- ✓ Average sales per unit are roughly \$1 million a year.
- ✓ Food sales have dropped some due to a new and stricter drinking law. In the past consumers almost always bought food when they bought liquor. However, the new law restricts liquor purchases at convenience stores.
- ✓ The main players are Essomart, Tigermart, Starmart Select and Super 24. All of them, except Super 24, also sell gasoline, and are operated by gasoline companies. All stores sell fast food, mostly hot dogs and sandwiches.
- ✓ Esso operates Essomart and Tigermart.
- ✓ Texaco operates Starmart.
- ✓ Shell operates Select and Express.
- ✓ The country's largest conglomerate, the Castillo Hermanos group, which also owns the national beer company, operates Super 24.

### C. TRADITIONAL MARKETS

#### Entry Strategies

There are two types of traditional markets in Guatemala. One is the open-air market, where the local farmers sell their products. It is set up similar to a farmer's market. Each person has a stand and sells their product every day, and at the end of the day takes home whatever is left. These markets sell a lot of fresh produce. The second are the corner stores, which are "mom and pop" operations. The number of these corner stores is too large to count. It is estimated that there are two of these per every city block in Guatemala City alone. They are very small, on average 30 square feet,

and carry an inventory on average of \$500. Again, the way to enter these markets is through importers, distributors, and wholesalers. Most of the companies that supply this sector are the same that supply the other two. This sector accounts for very little of the imported food sales. The only imported product from the U.S. that sells well in this sector is instant noodle soup.



**Distribution Channels**

- The distributor is the same who supplies supermarkets and convenience stores.
- The main difference is the inclusion of at least one wholesaler, sometimes more than one for products sold in the interior of the country.
- This wholesaler gets the product to his customer base by route system, going store to store on a daily basis.
- They do not work on the basis of a purchase order, but carry sufficient inventory to supply the entire route.

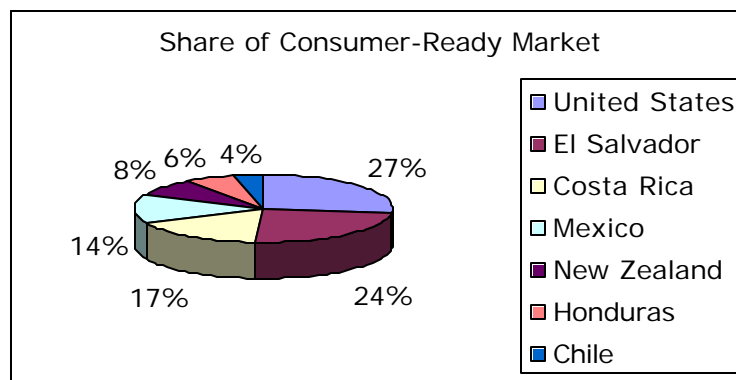
**Trends & Highlights**

- Products entering the open-air markets should be low cost and handled through a wholesaler.
- Products entering the mom-and-pop stores must be relatively non-perishable and low-cost items.
- Traditional markets pull much of their product from farmers and small wholesalers.
- Guatemala's underdeveloped infrastructure limits the size of these wholesalers.
- About 64% of retail food sales are still made through traditional markets.
- There has been a move away from open-air markets due to their unsanitary practices.

Small corner stores have a higher price per unit than supermarkets.

**III COMPETITION**

The Central American countries, Mexico and Chile are the main competitors for the U.S. for the Guatemalan import food market. The existence of a free trade agreement between the Central American countries provides a great opportunity for constant exchange of products. Mexico has been expanding into the Guatemalan market and recently signed a free trade agreement with the northern triad of Central America. This new agreement has helped Mexico expand its market size, and become a more serious competitor of the U.S. Mexico already has a large presence in the bread, snacks, fresh produce and other consumer-oriented markets. Chile has also been gaining ground and is also negotiating a free trade agreement. Chile is very prominent in the fruit and wine markets



El Salvador has traditionally been Guatemala's main trading partner and still continues to be an important partner, increasing its share of the Guatemalan market from 19.4% in 1999, to 24% in 2002.

Chilean fruits have been gaining market share, at the expense of the U.S. If Guatemala ratifies the free trade agreement with Chile before CAFTA is finished, the loss of market share could be very significant.

For 2005, Central America will begin negotiations for a free trade agreement with the European Union. This will allow CA to have more trade opportunities and better prices for high-value products to offer to European visitors. During 2004, a total of four European cruise ships landed in Puerto Santo Tomas de Castilla and for 2005 the number of these ships will increase, stimulating demand for these types of products.

#### IV BEST PROSPECTS

##### A PRODUCTS PRESENT IN THE MARKET WITH GOOD SALES POTENTIAL

Product/Sector	Total Imports*	Imports from U.S.*	U.S. Market Share	Projected Growth
Meat	\$28.40	\$13.00	46%	20%
Cheese	\$8.80	\$1.40	16%	6%
Processed Fruits & Veg.	\$14.20	\$9.10	64%	9%
Poultry	\$32.90	\$32.90	100%	15%
Fruit	\$26.00	\$7.40	28%	20%

*In Millions of \$US*

**Source:** United Nations Trade Statistics & US Trade Data

##### B PRODUCTS NOT PRESENT DUE TO TRADE BARRIERS

There are no products that are banned in the market. There are quotas on many items, including wheat, corn, rice, and apples. For a complete explanation and a review of how to export food products to Guatemala, please read this office's Exporter Guide 2004 at [www.fas.usda.gov/scripts/attacherep/defaults.asp](http://www.fas.usda.gov/scripts/attacherep/defaults.asp).

**V POST INFORMATION**

If you have any questions or comments regarding this report or need assistance exporting to Guatemala, please contact the U.S. Agricultural Affairs Office at the following address:

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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: <http://www.fas.usda.gov>